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## **New Zealand**

Post: Wellington

## **New Zealand Dairy Sector Mid-Season Update**

**Report Categories:** 

Dairy and Products

**Approved By:** 

**Hugh Maginnis** 

Prepared By:

David Lee-Jones

## **Report Highlights:**

With over two thirds of the New Zealand 2013/2014 production season now over, milk supply is running approximately five percent higher than the previous season. Commentators are now saying the full season will be seven to nine percent ahead of 2012/2013.

## New Zealand Dairy Sector Mid-Season Update February 2014

With over two thirds of the New Zealand 2013/2014 production season now over, milk supply is running approximately five percent higher than the previous season. Commentators are now saying the full season will be seven to nine percent ahead of 2012/2013. It was February 2013 when the effects of the nationwide drought started to reduce milk supply. However this year rainfall is adhering to long term averages generally over the country apart from a few districts in the Waikato and the Canterbury province. Because most dairy farmers in Canterbury irrigate this shouldn't limit milk supply there.

New Zealand Milk Production Update (1000's Metric Tons)					
Calendar Year	September 2013 forecast	February 2014 forecast	% change between forecasts		
2013	19,678	20,051	1.9%		
2014	20,569	21,197	3.1%		
% change between years	4.5%	5.7%			

Source: Post, DCANZ, Rabobank

The weather outlook through until April suggests rainfall in the North Island will be average with a slight weighting to above average falls. For the Southland province (bottom of the South Island) which relies on natural rainfall for pasture growth there should be adequate rainfall. Even if pasture supply begins to drop below anticipated growth rates over the next four months farmers are likely to aggressively supplement cow diets with purchased or conserved feed. The forecast milk solids price of approximately \$NZ8.30/kilogram is a record which will enable farmers to buy feed without denting profits to much. Additionally, in most districts farmers have good supplies of hay and silage.

Looking ahead to the second half of CY2014, which will form the first half of the 2014/2015 production season, it is likely production growth will be moderate. One commentator is suggesting only 50 new dairy conversions and there haven't been reports to contradict this. New milk from this source will bolster total milk supply by less than one percent. Genetic progress and other productivity gains are likely to be in the order of one to one and a half percent. Commentators are warning that the milk solids price for 2014/15 is very unlikely to be as high as this year which will mean most farmers will be fairly careful when it comes to purchasing feed.

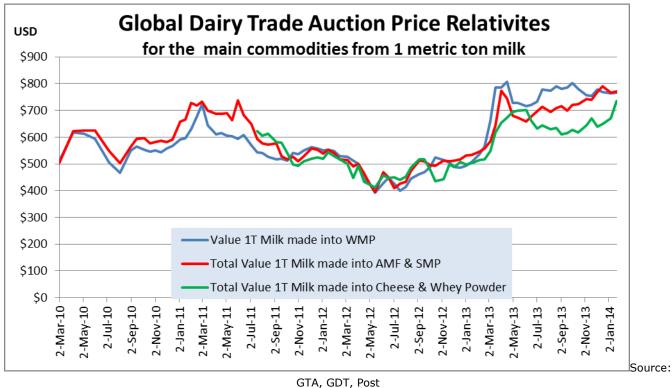
It can be seen from the table below the 2013 drought did have an effect on overall exports which dropped by one percent, even though total milk supply fell by 2.5%. Manipulation of inventory levels minimized the effect of the reduced milk supply.

Whole Milk Powder (WMP) is the product which New Zealand really has a competitive edge. In 2013 NZ again ramped up its exports in response to the excellent profit margins that were available in the second half of the year. The Global Dairy Trade Auction chart depicts just how wide the gap was back to the other main commodities. Each GDT Auction event is also a snapshot into how the participants view future pricing because at each event product is sold in contracts which have delivery dates up to six months in the future.

New Zealand Dairy Product Exports by Metric Tons					
Calendar Year	2011	2012	2013		
Skim Milk Powder	361,625	389,624	392,023		
Whole Milk Powder	1,109,635	1,261,277	1,291,605		
Butter & AMF	413,685	463,079	461,236		
Cheese & Curd	252,857	305,647	277,002		
All Other Dairy Products	361,763	415,795	387,208		
Total Dairy Exports	2,499,565	2,835,422	2,809,074		

Source: GTA

There seems to be two main reasons for the forecast strength of dairy pricing over the next six months: firstly Chinese domestic milk supply is significantly reduced which has induced processers to aggressively secure product supply offshore; secondly the other main exporting nations/blocs have been relatively slow to respond with increased supply.



It is perceived in New Zealand that demand from China is going to be maintained over the next twelve months. One commentator is even picking that Chinese imports will be up 15-20% year-on year for the first half of 2014.

With respect cheese, generally it is the most expensive commodity to make in NZ so is made when the other commodity plants are operating to capacity. However Fonterra has rebuilt two plants to produce up to 50,000 MT of individual quick frozen grated mozzarella cheese. This product can be

made in one day and doesn't need maturing. Apparently the technology has reduced costs and this product has the same profit margin as WMP.